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SUBJECT: SRI LANKA'S LABOR RECORD MERITS RETAINING GSP

REF: COLOMBO 53

SENSITIVE BUT UNCLASSIFIED, PLEASE PROTECT ACCORDINGLY

1. (SBU) Summary: Though the GSL does need to improve its handling of certain labor-related issues, it also has some of the best labor conditions in the region. The AFL-CIO petition to lift GSP privileges from Sri Lanka focuses on the one main area - union access in the Export Processing Zones (EPZs) - that needs attention. The current government has begun to address this. Given the low incidence of forced labor and child labor, the strong legal structure and relatively good working conditions in the country, Post believes the issue of EPZ access does not warrant the withdrawal of the GSL's GSP benefits. Withdrawing GSP now would also send conflicting signals to a new government enmeshed in a fledgling peace process and major economic reforms to which the US has pledged strong support. End summary.

A strong labor record overall...

2. (U) Sri Lanka is a member of the ILO, has ratified seven of eight conventions on labor standards and is in the process of approving the eighth. Over 50 statutes cover labor laws. There is a very active, politicized labor movement in the country, which exercises its right to protest and strike on a regular basis. Reftel reports on the influence organized labor had in changing the new labor bills recently passed in Parliament. The GSL made changes in reaction to pressure by labor concerns, despite these bills being viewed as a pro-business development.

3. (U) The cost of Sri Lankan labor is higher than in other south Asian countries partially because labor standards are higher. One expat country manager of a US garment firm says she spends 80% of her time monitoring standards and regulations. Another visiting representative of a US firm said the working conditions he saw at a garment factory were the best he had seen in the world. Even local labor representatives have said to Laboff that the laws are good, they just need to be enforced equally throughout the country. USAID has been working closely with the Ministry of Employment and Labor on a Productivity Policy. USAID plans to support workforce training and related reforms as the GSL attempts to create 2 million new jobs for the unemployed (plus returning refugees). Jobs will also be needed as the military demobilizes once peace is achieved.

...with some weaknesses

4. Post is now investigating the cases named in the AFL-CIO's petition to USTR to withdraw Sri Lanka's GSP privileges. The majority of the cases concern anti-union tactics at factories inside EPZs, which are managed by the Board of Investment (BoI). Information on the current status of these cases will be forwarded in a separate cable.

5. Areas that need improvement include allowing unions to form in the EPZs, and a timely move into collective bargaining with them. Post understands that the BoI has begun to inform potential foreign investors that union activity in the EPZs is no longer restricted. These words need to be supported by actions. Addressing the backlog of labor cases, enforcing the Labor Commissioner's directives, conducting a genuine dialogue between government, employers and labor, and creating a social safety net are other issues for the GSL to resolve.

Comment

6. (SBU) Sri Lanka is justifiably proud of its reputation for high labor standards. In a region with forced labor, child labor and sweatshops, there is good reason for this pride: there are no sweatshops in Sri Lanka, and the child

labor that does exist is in the informal sector. There are approximately 500 active unions, some playing a powerful role in national debates. Problems do exist, but Post feels they are not of the magnitude that warrant withdrawal of GSP.

17. (SBU) Comment continued: The USG has publicly committed to stronger cooperation with and support of the Sri Lankan government's peace and economic reform initiatives. Signing a Trade and Investment Framework Agreement (TIFA), promoting bilateral trade, increasing assistance levels, and championing the GSL's peace initiatives are elements of the new relationship. Taking away GSP privileges at this point would send a negative and confusing signal. Post believes that this issue would be better handled in bilateral discussions under the TIFA framework. The desire of the GSL to enter into a FTA with the US makes this forum a particularly effective mechanism to foster change.

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